



REC'D TN
REGULATORY AUTHORITY
James B. Wright
Senior Attorney

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OFFICE OF THE
EXECUTIVE SECRETARY

1411 Capital Boulevard
Wake Forest, North Carolina 27587-5900
Telephone: 919-554-7587
Fax: 919-554-7913

September 14, 2000

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

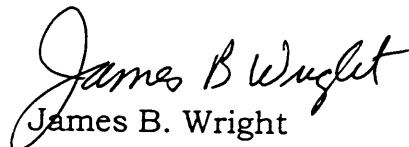
Re: Docket No. 97-00409: All Telephone Companies Tariff
Filings Regarding Reclassification of Pay Telephone
Service As Required by FCC Docket 96-128

Dear Mr. Waddell:

Pursuant to the procedural schedule set forth in the July 21, 2000 Order of the Pre-Hearing Officer in the above case, enclosed for filing on behalf of United Telephone-Southeast, Inc. ("United") are the original and thirteen (13) copies of the pre-filed direct testimony in support of United's proposed rates.

Please contact me if you have any questions.

Sincerely yours,


James B. Wright

JBW

Enclosures

cc: Honorable Lynn Greer, Pre-Hearing Officer
Parties of Record (w/enclosures)

*Proprietary data
on file*

POSTED
9-19-00

CERTIFICATE OF SERVICE; DOCKET 97-00409
(Pay Telephone Service Reclassification)

The undersigned hereby certifies that on September 14, 2000 the foregoing pre-filed testimony of United Telephone-Southeast, Inc. was served upon the following parties of record by fax or by depositing in the U.S mail addressed as follows:

Richard Collier
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Ted G. Pappas
Bass, Berry & Simms
2700 First American Center
Nashville, TN 37238

Vincent Williams
Consumer Advocate Division
425 Fifth Avenue North, 2nd Fl.
Nashville, TN 37243

Guilford R. Thornton, Jr. Esq.
Stokes & Bartholomew
424 Church St, Suite 2800
Nashville, TN 37219-2386

Guy M. Hicks
BellSouth Telecommunications
333 Commerce St., Suite 2101
Nashville, TN 37201-3300

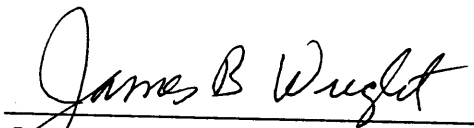
James P. Lamoureux
AT&T Communications
1200 Peachtree Street, Room 4060
Atlanta, Georgia 30309

John Adams
Citizens Telecom
1400 16th St., NW, #500
Washington, DC 20036

Val Sanford
Gullett, Sanford, Robinson & Martin
230 Fourth Avenue, North, 3rd Floor
Nashville, TN 37219-8888

Henry Walker
Boult, Cummings, Conner & Berry
414 Union Street, Suite 1600
Nashville, TN 37219

Jon E. Hastings
Boult, Cummings, Conner & Berry
414 Union Street, Suite 1600
Nashville, TN 37219-1777



James B. Wright

UNITED TELEPHONE SOUTHEAST, INC.

DIRECT TESTIMONY

OF

JEFFREY P. CASWELL

BEFORE THE

TENNESSEE REGULATORY AUTHORITY

DOCKET NO. 97-00409

SEPTEMBER 15, 2000

UNITED TELEPHONE - SOUTHEAST, INC.

**DIRECT TESTIMONY
OF
JEFF CASWELL**

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY
DOCKET NO. 97-00409
SEPTEMBER 15, 2000**

1 **Q. Please state your name, title and business address.**

2 A. My name is Jeffrey P. Caswell. I am a Group Manager – CLEC Negotiations,
3 for Sprint/United Management Company. My business address is 6480 Sprint
4 Parkway, Overland Park, KS 66251. I am testifying in this proceeding on
5 behalf of United Telephone-Southeast, Inc., hereinafter referred to as Sprint.

6 **Q. Please summarize your educational and professional background.**

7 A. I hold a Master of Business Administration (MBA) from Drake University in
8 Des Moines, Iowa and a Bachelor of Business Administration with an
9 emphasis in finance from Iowa University.

10 I began my career with the Iowa Commerce Commission as a Utility Analyst
11 II in May 1985. I researched utility economic and financial policy issues,
12 prepared policy recommendations and rule changes, and presented testimony
13 to utility industry officials on these issues. In May 1986, I accepted a position
14 with Telephone and Data Systems as the Senior Administrator for Access and
15 Settlements. In April 1988, my career began with Sprint's United Telephone

1 Company of Florida. I held positions of increasing responsibility in revenue
2 planning, special access pricing, financial and marketing analysis, national
3 account management, and as a group manager for pay telephone markets and
4 CLEC negotiations.

5 In May 1998, I assumed responsibilities as the Group Manager for the pay
6 telephone markets. I continued working on issues related to deregulation of
7 the pay telephone business as required by the FCC in implementing the
8 mandates of the Telecommunication Act of 1996. I had full responsibility for
9 securing and administering dial around compensation revenue, implementing
10 programming and systems development work, and developing Sprint's
11 regulatory policies and positions for the pay telephone business. I also
12 provided national account management for large pay telephone customers and
13 all product management functions for the payphone business.

14 In July 2000, I assumed my current position as Group Manager – CLEC
15 Negotiations. I direct the activities of staff managers negotiating
16 interconnection agreements with competitive local exchange carriers (CLECs)
17 within the Sprint local serving areas.

18 **Q. Mr. Caswell, what is the purpose of your testimony in this proceeding?**

19 The purpose of my testimony is to support Sprint's Tennessee payphone rates
20 and provide evidence that they are cost-based pursuant to the FCC's new
21 services test as ordered in FCC Docket 96-128. In addition, my testimony will

1 show that Sprint provides non-discriminatory rates and services to
2 independent payphone providers and that all subsidies have been removed
3 from Sprint's payphone rates.
4

5 **Q. Please explain Sprint's payphone service offering.**

6 **A.** Sprint's tariffed payphone service consists primarily of three components:
7 access line, coin control, and answer supervision. An explanation of each
8 component is provided below:

9 Access Line -- The payphone access line supplied by Sprint is the same
10 measured business access line ("measured B1") supplied by Sprint to
11 any other business customer requesting a measured access line.

12 Answer Supervision -- Answer Supervision provides the capability of
13 delivering "off-hook" supervisory signals from the subscriber's serving
14 central office to a line interface at the subscriber's premises. These
15 supervisory signals indicate that the called party has answered the
16 incoming call (gone "off-hook").

17 Coin Control -- Coin Control service is available as an optional feature
18 for use in conjunction with payphone line service. Coin Control
19 service is based on a central office platform that offers features for use
20 with coinless or coin operated (payphone) telephone service. Coin
21 control service uses a software-driven system to provide features and
22 capabilities similar to those provided by micro-processor based,

1 "smart", payphone sets. Coin Control service provides the following
2 features: 1) Coin collection, return and recognition; 2)
3 Announcements; and, 3) Pre-prompting for overtime (for non-local
4 calls).

5 **Q. What are the tariffed rates for these services?**

6 A. The access line supplied by Sprint in Tennessee to payphone providers is the
7 same measured access line supplied by Sprint for any other business purpose.
8 As a result, payphone providers pay the same tariffed rate for a measured
9 access line as do any other area businesses located within the particular
10 exchange. Sprint's monthly payphone line rates range from \$12.45 to \$20.96
11 depending upon the exchange, plus additional usage rates applicable to local
12 calls. Answer supervision and coin control are also offered under tariff. The
13 tariffed rate for Answer Supervision is \$5.00 per month, per line; the tariffed
14 rate for Coin Control is \$3.75 per month, per line.

15

16 **Q. Are Sprint's Tennessee payphone rates compliant with the FCC's "new
17 services test" as required by CC Docket 96-128?**

18 A. Yes. Sprint has complied with the "new services test". On June 6, 1997,
19 United Telephone- Southeast, Inc. filed its revised new services cost studies in
20 support of its answer supervision, coin control, and payphone line rates. See
21 Exhibit A. The cost study for the payphone line is an embedded study based
22 on the Part 36 jurisdictionally separated non-toll embedded cost of an access

1 line and local usage. The cost studies for answer supervision and coin control
2 features for payphone providers are TSLRIC studies consistent with Sprint's
3 cost supports for other new services and features. See Exhibit B for more
4 detail regarding these studies.

5
6 The new services tests attached as exhibits and supported by Sprint in this
7 proceeding clearly show Sprint's rates for each of these payphone related
8 services are above cost and well within the ratio of rates to direct costs that
9 have been allowed by the FCC.

10
11 **Q. Please describe the FCC's "new services test".**

12 **A.** As stated in FCC CC Docket 97-140, Memorandum Opinion and Order
13 (Released October 29, 1997) paragraph 2, "The new services test is a cost-
14 based test that establishes the direct cost of providing the new service as a
15 price floor." Compliance with the new services test requires the LEC to
16 calculate the direct cost, or price floor, and set the retail price for that service
17 above cost. The new services test certainly does not require that direct costs
18 be based on forward-looking economic cost estimates. Rather, the FCC
19 allows LECs to develop and justify costing methodologies for the new
20 services test and has not required any particular costing methodology.
21 Furthermore, the FCC's pricing requirements do not mandate uniform overhead

1 loadings. In fact in discussing Bell Atlantic's payphone rates, the FCC
2 determined that a wide range of overhead loadings was not unreasonable:

3 With respect to Bell Atlantic's rates, we find no basis in the
4 revised cost data to find that these overhead loadings are
5 unreasonable or produce unreasonable rates in this case. . . .
6 Bell Atlantic's ratio of rates to direct costs for payphone
7 features range from a low of zero times greater than the direct
8 costs to a high of 3.4 times greater than the direct costs while
9 the ratio of rates to direct costs for the payphone features
10 offered by other LECs ranges from a low of zero times greater
11 than the direct costs to a high of 4.8 times greater than the
12 direct costs.¹

13
14 **Q. Are Sprint's cost-to-price ratios for payphone services consistent with**
15 **prior FCC rulings?**

16 **A.** Yes. Sprint's ratios of rates to direct costs for its access line, answer supervision,
17 and coin control are all well within the FCC's parameters discussed above. In
18 fact, Sprint's ratios of rates to direct costs are less than half that of what other
19 LECs have offered and what the FCC has allowed to become effective. I have

¹ Memorandum and Opinion Order, In the Matter of Local Exchange Carriers' Payphone Functions and Features, Docket 97-140, (adopted October 27, 1997).

1 included, as Exhibit C, a chart illustrating the direct cost, the tariffed price, and
2 corresponding cost-to-price ratio for each of Sprint's payphone services.
3 For the access line, Sprint used the same new services test methodology that
4 the FCC found acceptable for answer supervision and coin control. The
5 corresponding result, as the chart illustrates, has an even lower ratio of rate to
6 direct cost than the FCC previously found acceptable for Bell Atlantic.
7

8 **Q. How does Sprint's cost-to-price ratio for payphone services compare to**
9 **the ratio of other, non-payphone services filed as new services with the**
10 **FCC for Tennessee?**

11 R. The ratios of 0.8 to 1.6 identified in Exhibit C for the payphone access line,
12 answer supervision, and coin control are within the ranges of other new non-
13 payphone services filed with the FCC and subject to the new services test that
14 Sprint offers in Tennessee. I have included, as Exhibit D, a chart highlighting
15 several new rate elements for OC12 and OC3 services that Sprint offers that
16 were subject to the same new services test. As shown in the exhibit, the cost-
17 to-price ratios for these Tennessee services are all higher than the payphone
18 service ratios, and all the rates have been allowed to go into effect.
19

20 **Q. Does Sprint subsidize its payphone operations with revenue derived from**
21 **noncompetitive services?**

1 A. No. In its CC Docket 96-128 decisions, the FCC determined that all
2 incumbent LEC pay telephone assets must be reclassified as customer
3 premises equipment (CPE) on or before April 15, 1997. Specifically, the FCC
4 required that payphone equipment in Account 32.2351 (public telephone
5 terminal equipment) and any other assets used in the provision of payphone
6 service, along with the associated accumulated depreciation and deferred
7 income tax liabilities, should be directly assigned or allocated to nonregulated
8 activities pursuant to the FCC's cost allocation rules.

9
10 In April 1997, Sprint made a series of accounting transfers to reclassify
11 payphone operations to a non-regulated status in accordance with FCC orders.
12 Sprint reclassified its payphone investment and associated depreciation and
13 deferred income tax liabilities from regulated to unregulated status.

14
15 In addition to the reclassification discussed above, Section 276(b)(1)(b) of the
16 1996 Telecom Act mandated that ILECs remove from their intrastate rates any
17 charges that recover the costs of payphones. Specifically, the FCC required
18 ILECs to reduce their Carrier Common Line Charge ("CCLC") by an amount
19 equal to the interstate allocation of payphone costs currently recovered
20 through those charges. As a result, on April 1, 1997 Sprint reduced its
21 interstate terminating CCLC from \$0.018570 to \$0.017398, or by \$0.001172
22 per minute of use. Consistent with the FCC findings, Sprint also identified

1 intrastate payphone subsidies, and on May 19, 1997, Sprint filed tariff
2 revisions reducing the intrastate originating CCLC rate from \$0.009315 to
3 \$0.007637, or by \$0.001678 per minute effective retroactively to April 15,
4 1997. The subsidy was further reduced in a revised calculation filed by Sprint
5 on June 6, 1997 (Exhibit A). However, Sprint made no further adjustments to
6 the interim CCLC rates at that time.
7

8 **Q. Do you wish to summarize your testimony?**

9 A. Yes. Sprint abided by the pro-competitive directive of Section 276 of the
10 1996 Telecommunications Act and the FCC Payphone Orders. In doing so,
11 Sprint removed payphone subsidies, deregulated and detariffed its payphone
12 CPE, and made available under tariff its payphone services to all payphone
13 providers on a nondiscriminatory basis. Furthermore, Sprint abided by the
14 new services test in determining its payphone line rates along with its rates for
15 answer supervision and coin control. Clearly, the new services test did not
16 require costs to be based on forward-looking economic costs. As a result,
17 Sprint developed and filed a new services test supporting its payphone line
18 rate based upon an embedded cost study. Additionally, Sprint has accurately
19 removed the payphone subsidy from its intrastate CCLC rates.
20

21 **Q. Does this conclude your testimony, Mr. Caswell?**

22 A. Yes.